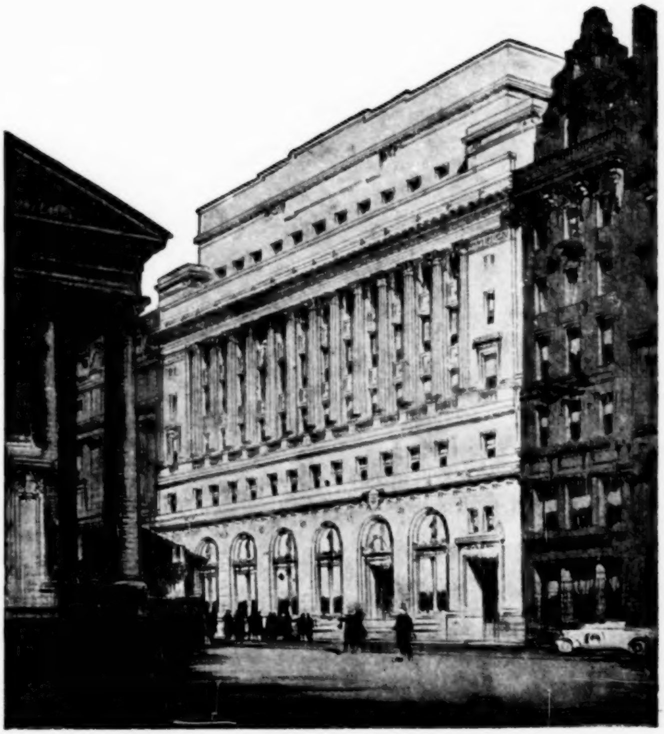

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**** The Bank publishes from time to time in this Monthly Review signed articles by exponents of different theories on questions of public interest. The Bank is not necessarily in agreement with the views expressed in these articles.*

The Reduction of the Budget

By Sir Ernest Benn

IN calling for a definite hundred millions off the total of the budget, LLOYDS BANK REVIEW has given a most valuable practical turn to the discussion of National Economy, and I gladly avail myself of the opportunity you are good enough to give me to endeavour to explain how some such object can be achieved. Within the limits of a single article it is only possible to touch lightly upon three or four aspects of a very big subject, and I shall attempt to do no more than indicate the outlines of four possible branches of the study of it. These are :—

(1) Constitutional or Parliamentary Action.
(2) Administrative Action by Departments and Local Authorities.
(3) Capital Obligations of the Public.
(4) Economy by Public Opinion.

No good purpose can be served by minimizing the difficulties, for they are many and complicated. Firstly, there is a doubt as to whether we are really ready for economy—such economy as would be worth anything—and whether the suffering caused by folly has yet been sufficient to make the folly clear. The inflation caused by the war went far beyond the realms of currency. The popular shallow currency discussion tends to overlook the more difficult psychological problems involved. We did a great deal more than merely

inflate salaries and wages, we puffed up common standards of work and value. To win the war we gave millions an inflated opinion of their economic importance and created vast fictitious economic values. Everyone can appreciate the complications of a cotton concern with four times the proper figure in its capital account, but it is much more difficult to measure the larger mass of intangible inflation of the same kind. For example, the young lady who, while taking enough to keep herself in accordance with the fashions of the day, fondly imagines she is balancing her account with society by making useless entries on a superfluous card index for six leisurely hours a day. Meanwhile, the father, a small shopkeeper, who was content a few years ago with the remuneration of a middle-class mechanic, has been inflated to a motor car and a golf subscription, without a corresponding increase in the value of his contribution to the community. The working population is soaked with such fallacies, and they have as much real bearing on our problem as the rate of the Income Tax. Trade Union abuses, so widely discussed, are only symptomatic of very general error.

Sir Charles Harris, in a letter to *The Times* on April 27th, pointed out that "the cost to the budget of all goods and services (excepting Government servants on sliding scales) is kept high by the pegged wage-level, not the wages of the finishing industry only, but the total wage-content at all stages from the mine and farm upward; perhaps 90 per cent. or (with profits vanishing) even more, of the final cost." The budget cannot fix wages, but the effect of wages on the budget is one of the big factors in our problem.

The volume of technical difficulty in the shape of past legislation is very large and brings us to the next mass of obstruction composed of vested interests in extravagance. These are to be found in plenty outside the ranks of the chief offenders—the Trade Unions. The Department of Overseas Trade furnishes a typical instance. When the Geddes Committee recommended the shutting down of this branch of the Government Service, all the Chambers of Commerce and Trade Federations appeared to rise up in protest. The fact is now appreciated that the existence of the Department and all its expense has forced the trades to create their own bureaucracies with more expense, and these numerous and powerful unofficial bureaucracies, making a living as the formal opposition to their official brethren, naturally object, just as umbrella-makers would

very properly object to the abolition of rain. When we add the many sentimental difficulties, we begin to get the measure of the problem. Among these are all the smoke-screens labelled Health, Education, Agriculture and Trade. Democracy is apparently content to subsidize a poet to the tune of £1,500 a year, so long as he writes his poems behind one of these screens.

My commission, however, is not to discuss the difficulties of economy, but to suggest ways of surmounting them. I must therefore content myself with the briefest possible mention of the greatest of all the difficulties, namely, that of securing even a rough general understanding of the meaning of the word itself.

Economy is a state of mind, a point of view, a philosophy or a method, and the attempt to express it in figures, while of course it must be made, is very apt to give a false impression and lead to misunderstanding and error. Chief among the difficulties is the shallow mistake of thinking of economy as non-spending. The spending or movement of money is only the indication of the sale and purchase and movement of goods and services, and therefore should be encouraged. The need for public economy arises simply from the proven fact that the collective operations of public authorities damp down and tend to stop the sale and purchase and movement of goods and services. The universal experience proves that as rates and taxes go up, trade and industry go down; the addition of a million to the public services involves the subtraction of several millions from the private and individual services and causes not more but less spending. Therefore, in demanding economy, or less spending, by public authorities, we only do so in order to promote more spending through other channels. Thus Economy does, in fact, mean not less but more spending.

I. Constitutional or Parliamentary Action

To consider first the Parliamentary road, I have been at some pains to endeavour to discover how the financial procedure governing the actions of Parliament came into being and was developed. While a voluminous literature is available on the rights of Parliament in connection with finance, I have failed to find among the Constitutional authorities any sufficient defence of the procedure which has so far been followed. Perhaps the absence of necessity is the reason for methods which, although convenient and adequate when applied to 5 per cent. of the national income, have become very inconvenient and altogether

inadequate for a state of affairs when more than a third of the national income is in question. However that may be, we still proceed to consider Estimates first and Supply second, and until that order is reversed there will be grave difficulties in the way of real and true economy. It is, to say the least, curious that national financial matters should be approached in a way which is the exact reverse of the ordinary approach to all other financial matters. In our domestic and business capacities we always count our income and then proceed to spend it, but in our public business we spend first and then look for the money afterwards.

At present the spending departments put in their estimates, which the Treasury officials do their best to prune. The Treasury is staffed with very able men, but in every discussion between them and the departmental officials the odds are on the officials, for they are specialists on the matter in dispute. Further, if " my Lords of the Treasury " make a stand and refuse some item, the Minister can always threaten to take the question to the Cabinet, and in Cabinet discussions, sentiment and sentimentality are as strong as in any other mob meeting. The result is that extravagant estimates are passed and having been passed are sacrosanct, and then it only remains for the Chancellor to find the money.

I suggest that it is time we reversed this quite unnatural process. Let proceedings begin by the Chancellor making his budget of what the taxpayer can be asked to provide for national purposes, having regard to the needs of industry for savings and new capital, and get this budget approved by the Cabinet and the House of Commons. The sum available would then be notified to the departments, with an intimation that it would be divided between them in the same proportions as in the previous year, unless any Minister is able to satisfy the Cabinet that a larger proportion should be given to him, and taken from other departments.

If this were done, the burden of proof would be transferred to the departments and from the Treasury, and it would be the Chancellor's Estimate of Total Expenditure which would be treated as sacrosanct.

There will, of course, be the usual departmental objections to such a drastic reversal of customary procedure ; especially it will be said that you cannot delimit the expenditure of a living organization in advance. But, in fact, it would be possible if a

real national need were shown, for the Chancellor to submit a Supplementary Estimate, and the difficulty of inducing him to do so would be a most salutary check on departmental extravagance.

This proposal which comes to me from a valued and authoritative correspondent, is also attractive because it puts the discussion on a level worthy of the vital issues involved. It would, in fact, alter the parliamentary atmosphere. Its adoption, if possible, would lift Parliament out of the quagmire of detail in which it now flounders and bring it back to a real Inquest of the Nation. Consider very briefly what would happen. Parliament would begin with an estimate of the income of the nation, a matter which, strangely enough, it has never yet debated. It would surely first of all decide that as a primary necessity so much must be left for investment abroad, a question vital to our existence, and yet of which Parliament has, so far as I know, never taken any formal or official cognisance. The debate would pass in turn to all the vital national statistics, all now, no doubt, studied by responsible people behind the scenes, but never yet introduced to Parliament except as side issues or illustrations in debate. If, for example, the national income were £2,500,000,000 and it were shown that £1,000,000,000 was necessary for the wage fund, and £500,000,000 needful for investment at home and abroad in all its many forms, including the replacement of wastage and depreciation, Parliament would know that there remained £1,000,000,000 for all the other needs and purposes of the nation. In these circumstances detailed proposals to superannuate somebody or subsidize somebody else would get into a dignified perspective worthy of the Mother of Parliaments. I do not, therefore, apologize for putting this suggestion at the head of the Economy Agenda, as fitting in view of the vital issues involved, although it cannot be expressed in figures and is outside the practical scope of accountancy or banking. That something of this kind offers the real way out of our difficulties was recognized by that authoritative critic who writes in *The Sunday Times* under the pen-name of "Scrutator." I quote the following paragraph from his article of May 29th.

"The main truth about this problem of economy is that we shall never do anything worth while by merely picking out items of expenditure that we do not like. When Mr. Chamberlain spoke of 'thinking hard' about economy, he was

not using idle words. To economize in the fifty and hundred millions we shall need the force of revolutionary constructive ideas. It will not be sufficient to discontinue spending as the Labour and other post-war Governments spent. Our National Government must be an actual Restoral; a new régime with new ways of thought and new practice of its own. Conservatism must turn Radical in its methods and take to rebuilding after its own pattern."

There are, of course, a number of direct, if minor, economies which require parliamentary sanction, some of which are long overdue and all of which are imperative at this period of financial collapse. Whitehall and its environs are swarming with departments and sub-departments and embryonic departments conceived in war fever and multiplying even to-day at a very rapid rate. The Department of Overseas Trade, the Empire Marketing Board, the Export Credits Guarantee Department, the Government Chemist, the Overseas Settlement Department, the Imperial Economic Committee, the Economic Advisory Council, the Imperial Shipping Committee, the Medical Research Council, the Railway Assessment Authority, the Department of Scientific and Industrial Research, are samples of the many. Some of these eleven were specifically scheduled by the Geddes Committee for abolition, and the rest have appeared upon the scene since the Geddes Report. The functions performed by most of these bodies were previously undertaken by the Board of Trade, but to-day as separate departments they spend between them more than did the Board of Trade as a whole; and meanwhile the Board itself costs more than ever. A comparative study of Whitaker for the last ten years illustrates in graphic fashion the way in which small committees slowly develop into big departments. No single one of these new offices can point to much improvement in the field in which it was designed to operate, which means that, judged by results, they must all be classed as mistakes. Parliament would certainly not sanction any one of these proposals if brought forward to-day, and Parliament should now have the opportunity of admitting past error and saving money. The sum involved is apparently small, four or five millions, but taken by itself is deceptive. As the Geddes Committee pointed out years ago, the transfer of functions from old to new departments has generally resulted in adding to the size and expense of the department which it was hoped to

relieve. This paradoxical result is well understood by students of these matters. Bagehot gives the explanation in "The English Constitution."

"If it is left to itself, the office will become technical, self-absorbed, self-multiplying. It will be likely to overlook the end in the means; it will fail from narrowness of mind; it will be eager in seeming to do; it will be idle in real doing. . . . Not only does a bureaucracy thus tend to under-government, in point of quality; it tends to over-government in point of quantity."

Although this point of view would be properly stigmatized as an exaggeration if literally applied to each of the eleven mushroom departments named above, it has more than sufficient truth in it to justify a clean sweeping away of all of them at a moment when far greater and bigger economies are a matter of vital necessity. There are more difficult cases which require individual mention. The Geddes Report abolished the Ministry of Transport, but the public enthusiasm for the making of roads has given to that office a further lease of life. The need for roads having been satisfied, the Ministry is now gathering to itself new functions like the control of traffic, well within the abilities of the local authorities, and old functions, such as the control of railways and electricity which properly belong to the Board of Trade. Indeed the elimination of the overlapping and duplication involved in most of this Ministry would enable the Board of Trade and the local authorities to function more efficiently as well as more cheaply. We may, I hope, expect to hear when such news can be given to the public, that the very first act of the Economy Cabinet was to give notice to all interested in this obvious redundancy. The nominal economy involved is only £163,000, but the actual, of course, is much greater. The resultant economies by local authorities alone would amount to many times the total cost of the Ministry itself.

The Ministry of Labour presents rather more difficulty. Established to find us work, it now remains a huge vested interest in the absence of the very thing it is paid to supply. The theory that it is the duty of the State to find work for its citizens, or that such a duty can ever be performed, has long ago passed from the minds of all reasonable people, and all the functions of the Ministry of Labour, except Unemployment Insurance, should therefore now be catalogued to go. It is

not too much to say that every idea in the minds of those who founded this office has been falsified by experience and the case for immediate economy is as complete as any in the list. A later reference will be made to Unemployment Insurance.

On the principle that the last to come is the first to go, the New Dominions office should surely be closed before it has time to entrench itself in a new and expensive ceremonial and mechanism. No case was ever offered for splitting a good office into two; it was recognized and tolerated at the time as a convenient way of accommodating aspirants to ministerial honours, and is still so new as to make its cancellation as easy and as free from hardship than most of these unpleasant operations.

The Ministry of Pensions still maintains an establishment designed to deal with demobilization problems, and should be liquidated to a mere pay office for pensions about which there can surely be no further principles or problems to raise or settle.

The Ministry of Agriculture and a bunch of offices concerned with mines furnish other examples among the many available, of the truth of Bagehot's warning. Small economies in all these ways can be made, and must be made at once. The laborious cutting off of one redundant section after another may perhaps be the only quick way open to us of securing the hundred millions which we all know must be found at once. I cling to the view, however, that the task would not only be simplified but performed much more thoroughly and satisfactorily by such an attack on fundamentals as is indicated in the previous proposal for putting Supply in front of Estimates. Indeed, if that were done I doubt whether Parliament would ever be troubled to discuss Ministries of Transport at all. It might turn out in practice that essential departments with traditions, experience and skill behind them—say the Home Office and the Admiralty—faced with impossible cuts, would prove the most accomplished and effective advocates of the national will to economize in other directions. As things are at present the whole discussion of economy tends to degenerate into irrelevant and unworthy detail. If we adopted in public finance the natural ordinary sensible method of first calculating our income and then proceeding to spend it, two out of three rival plans for spending money would never find their way on to the agendas at all.

As a practical financial measure, the proposal is as perfect as anything could be. The House of Commons would approve without any difficulty a budget which decided that 600 millions was the most that the nation could afford at this juncture. From that point the discussion would proceed on practical lines and instead of deciding first, "What we want" and second, "How to pay for it," the arguments would assume a better order and character and would be first, "How much money is available?" and second, "What can we get with it?"

The force of the argument for the change suggested is strengthened by a glance at the figures of some of these government departments. Bagehot had not the advantage of such striking comparisons as these when he developed his argument.

The following sample figures are from the seventy-third number of the Statistical Abstract Cmd. 3465, published by the Stationery Office in 1930.

	1913	1929
Central Government	£802,940	£2,038,006
Home Department	£2,875,915	£12,123,423
Trade and Industry	£1,236,416	£9,145,144
Total ..	£4,915,271	£23,306,573

Those who entertain strong views on the futility of government assistance to trade and industry and who have surveyed the course of trade in the last thirty years and the enormous development of governmental activity in these matters, may be interested in the longer view obtained from the following figures.

	1901	1930
Department of Agriculture	£96,826	£2,455,513
Board of Trade and Subsidiary Departments	£197,465	£9,145,144
Total ..	£294,291	£11,600,657

II. Administrative Action by Departments and Local Authorities

While very serious efforts have already been made inside most departments, the scope for economy has yet to be adequately realized. Big savings through the elimination of redundant services and the closing of departments and sections involve questions of policy, but the smaller savings must not

on that account be overlooked. The adoption of commercial hours by the public service would save 10 per cent. of all clerical expenses straight away, and for other than mere financial reasons is an economy which should long ago have been in force. The cessation, for a time, of recruiting for any branch of the public service would yield a greater return than at first appears. The personal hardship involved in reduction of staffs is the strongest of the reasons against this form of economy, a difficulty which would to some extent be removed by a rule that all vacancies must be filled by surplus clerks from other departments.

A very big field for economy has yet to be explored in the relations between central and local government. The making of percentage or per capita grants from national to county and from county to district authorities is a modern device responsible for expensive overlapping and duplication. In Education, Health, Roads and many other matters, the work of the local authority is checked in every detail first by County Council and then by National officials. The percentage or proportionate interest of each department makes these extravagant processes essential. A reversion to the older plan of block grants would save all such expense, while in the opinion of the critics of the present system, would also lead to greater efficiency in the work itself. In this field is to be found the explanation of a great deal of the added cost of Education. The heavy expense of the policy of inspection upon inspection, the natural outcome of the per capita grant as compared with the block grant, may be gathered from a glance at "Whitaker's Almanack." In 1919 the Board of Education had an accountant-general at £1,000/£1,200; in 1931 there were an accountant-general at £1,200/£1,500 and a deputy at £1,000/£1,200. The chief clerk, who in 1919 was rated at £650/£800, had become in 1931 principal finance officer at £850/£1,000, assisted by two finance officers at £750/£850 each. Whereas in 1919 the list included one clerk in charge of accounts at £550/£700, there were in 1931 four accountants each drawing £550/£700. In 1919 the clerk in charge had one assistant at £360/£450, but the four accountants of 1931 have five assistant accountants each rated at £400/£500. If from this point the enquiry were to proceed to the expanded staffs which serve each of these officers, and then go on to schedule the extra and corresponding staffs which their appointment has put upon

each of the local education authorities, a very illuminating sample of the possibilities of administrative economy would be obtained. It is, however, important for critics to remember that the real question is not the salary of a particular official, but the departmental policy (such as the block *v.* the per capita grant) in pursuance of which his work is performed.

Other large administrative economies, both national and local, could be made by the closing of works departments and the abandonment of the direct employment of labour, in order that the public purse may now enjoy the benefits arising from falling markets.

An adequate conspectus of the possibilities of economy in all these and many other directions is obtained from the thought of six hundred members of Parliament, thirty or forty thousand members of local authorities, and several hundred thousand responsible public officials, all limited in their consideration of proposals for spending by a prior knowledge of overriding preliminary and conclusive supply budgets. The possibilities of economy by adopting the proposed new procedure are by no means confined within the limits of the national budget. The method would extend to local finance and instead of, as at present, the spending body delivering a precept to the collecting body, the order would be reversed and the latter would inform the former how much money was available.

III. Capital Obligations of the Public

The consideration of income and expenditure by no means exhausts the opportunities for economy. The public credit has suffered also from a failure to realize the nature and weaknesses of capital assets. Lord Wolmer has dealt in detail with the Post Office, and other national investments are open to similar criticism. The local government accounts bring the point out more clearly, with a total outstanding loan debt of rather more than a thousand millions, about three-quarters of which is represented by houses, waterworks, gasworks, electricity undertakings, tramways and other trading services. Against these loans must be put sinking funds which in 1927 amounted to £67,825,518, or 6 per cent. of the total. I should be diverging unduly were I to attempt to discuss either the adequacy or the reliability of sinking funds in relation to public debt. Suffice it, therefore, to mention that, as shown by the Statistical Abstract,

p. 183, while from 1926 to 1927 five millions were added to these local sinking funds, ninety-three millions were added to the total of the debts. My point is of another kind. A house or an electricity station is a proper commercial risk, involving no doubt many advantages, but having in the end the certainty of the complete loss of the original capital from obsolescence. The industrial shareholder of necessity shoulders this liability. He subscribes his money with full knowledge of eventual loss and arranges his accounts on that basis. The Government or local council proceeds in quite another way. Capital is raised not on the merits of the undertaking, but on the credit of the ratepayers present and future. Any thoroughgoing economy enquiry should, I suggest, review the arguments on which this practice was founded, having regard to all the experience of actual working now available. A policy of disposal would have a twofold economic effect. By removing from public accounts permanent debts on the one side, and wasting assets on the other, the public credit would be much improved. But further, by bringing these trading concerns into the commercial market, a more rapid adaptation to current conditions and prices could be effected, better service given, better profits made, and therefore more taxable capacity created for the benefit of both rate and tax accounts. It is argued, and certainly in some cases with truth, that these services bring profits to the relief of rates. Against that argument it should be remembered that any account, public or private, which contains the figures of two or more departments, can show profits or losses at will on any one department by the device of debiting overhead expenses in such a way as to give the desired result. In the national accounts, the Post Office and the Stationery Office, and in the local accounts a whole collection of trading undertakings, offer between them the prospect of economies which in the long run would not be far short of the one hundred millions which form our present objective.

IV. Economy by Public Opinion

A hundred millions reduction in public expenditure is quite obviously a necessity on the current figures, but we should even then be left with nine hundred millions of taxes and rates barring the way to real economic well-being and industrial and commercial progress. Such an economy would indeed be an unsatisfactory and quite temporary thing, if it were thought

to arise merely and only from the force of lack of money. Friends of Economy will be failing in their duty if they neglect to impress the public conscience with the immorality of improper spending, whether the money is there or not. A great opportunity therefore presents itself to promote the study of the whole question in its widest applications. The spending of public money by a democracy is so very easy that the importance of the principles underlying the matter and the opportunity for a sad but wise discussion of them is really quite as important as all the current details. When it is further remembered that a chastened and sober public opinion can by its mere existence save more money than is available by any technical process, those who are inclined to think the argument academic may attach more practical importance to it. There is in the circumstances of to-day an exceptional opportunity to make it clear that public expenditure often defeats its own object, not by chance or misfortune but because of an inherent weakness in its nature. The Ministry of Labour established to find us work, remains, as already mentioned, to tax us to support unemployment and reminds us, after the expenditure of a few thousand millions, that in a natural world we get what we pay for.

The public expenditure on housing gets into its proper perspective when, in a world afflicted for the moment with a surplus of commercial commodities, the outstanding shortage is the housing commodity on which vast public funds have been expended. It should not be forgotten that since last summer alone public opinion, unaided either by legislation or political action, has almost completely stopped the automatic growth of expenditure, an annual growth which probably amounted to our objective of one hundred millions. The most insistent minister of state is comparatively powerless against permanent officials supported by the officers of nearly two thousand local authorities. These hard-working public servants are much more susceptible to well-founded and widespread public opinion than to organized political movements, or even the official influence of temporary political chiefs. The subject is far too big to elaborate in this connection, but a brief note on unemployment may suffice to indicate the nature of the argument that public opinion acting alone without legislation, or even conferences, is capable of effecting actual concrete monetary economy.

Public conversation about economy turns very naturally to the "dole," but, as might be expected of public conversation, much of it misses the real point. There is no one branch of expenditure in which a bigger economy can be made than in unemployment insurance. That purpose, however, will not be fully effected by tackling present arrangements in detail, or by the discussion of individual cases of abuse. Big schemes which from their nature must be operated on technical rules and regulations, are bound to lead to isolated cases of fraud and imposition. Taxpayers know how this unavoidable weakness operates in the other direction in the assessment and collection of taxes, and there is very little to be gained by over-worry about these unavoidable abuses.

The policy behind the expenditure on unemployment requires, therefore, to be thought out afresh, and the first thing to do is to give up the use of the word "insurance." It is beginning to be realized by the nation, as it has long been obvious to a small minority, that unemployment is not in any accepted sense of the word an insurable risk. No institution properly labelled insurance would look at it for a moment. All other forms of insurance are associated with risks having the special quality in them that the insured can be relied upon to make every possible effort to avoid a claim. That is the very essence of insurance properly so called. Underwriters are able to shoulder the risk of fire or death in the absolute confidence that the insured will act as their most enthusiastic agent and take every possible precaution against the contingency covered by the policy.

When, however, we come to unemployment, a whole new set of circumstances arises, circumstances which have never been studied by any insurance mind. To name only one, most families ration out their employment. They may not do it on a fixed plan, but the policy of rationing is there. Half the family will regard itself as responsible for the other half. One girl will work in order that her sister may help with the housekeeping. One boy will gladly give part of his earnings to relieve the mother of the responsibility of letting lodgings. In fact, there is, and always has been, a rough-and-ready apportionment of the family income to meet the family necessities. There cannot be less than a million families who, working together in the ideal family way, use their total resources for the general purposes of the family scheme, whatever it may be.

The introduction of the insurance idea into the family idea in the last few years has altered the policy of many of these families. If two out of five persons were previously, and are naturally, the workers for the five, insurance opens up the possibility of rationing the earning function among the five in such a way that one or two or three of them may always be eligible for what is wrongly called "insurance" benefit. In such a case, and the existence of thousands of such cases is not disputed, the error of the word "insurance" is obvious. Instead of an insured person struggling to avoid a claim the exact opposite happens, and four or five insured are day by day studying the intricate rules and regulations with the deliberate purpose of creating claims.

Thus there are at least a million families who, in a loose sort of way, make the best use they can, as families, of the total income of the individuals. These are among the best of the families that go to make up the nation. They possess the qualities which, added together, make the wonderful national quality; they are, as a body, far better than current political discussion would indicate; they would, as a body, scorn the notion of anything in the nature of relief; they would hotly resist the suggestion that they were a charge upon the community. And yet to-day, because of the wholly false impression given by the word insurance, and because they pay a few shillings in insurance stamps, they properly and proudly draw from time to time millions of money from the national funds. No such result was contemplated by the authors of unemployment insurance, no such result was desired by the beneficiaries themselves, and further, no blame whatever can attach to people who draw these benefits so long as they are misled by this insurance error. If, therefore, we would now recognize that the risk of unemployment is not an insurable risk, and without abandoning for a moment our proud determination to shoulder as a nation the real trouble—the absence of work—call the dole "assistance," wiping out the unnatural and degrading idea of rights, the road to big economies, in this the largest of the national expenses, would be clear. The work of all the committees and authorities now charged with the administration of this assistance would be rendered far easier. Instead of employing their time in haggling over verbal technicalities involving rights, they would be giving the whole of their thoughts to assistance to overcome trouble, and the discussion

in the hundreds of thousands of cases which are constantly before them would assume another and a better character. Outside economy altogether, the adoption of this logical policy and the facing up to the real facts which it would involve, would also tend to a rehabilitation of those views of family responsibility to which at one time we attached importance as a nation, and which have been seriously weakened by our unhappy experience with unemployment insurance. One illustration of the mass of false thinking on this matter must be sufficient for my present purpose. In the course of the election contest, Sir Herbert Samuel dealt with the case of a man who claimed to draw the dole and who was in fact the possessor of a house. Sir Herbert expressed, no doubt correctly, the official view and the view of many who have allowed sentiment to supplant reason in this difficult matter. He laid it down that the authorities should take into consideration the rent or the annual value of the house in deciding the claimant's eligibility for benefit, but that no account should be taken of the capital value of the house itself. A moment's consideration will be sufficient to show the grave dangers of this attitude. Houses are, in point of fact, sold to the value of many millions a year in order to pay death duties, and those death duties are, according to Sir Herbert Samuel, to be used to relieve other householders of the necessity of setting or raising a mortgage on their property.

There exists no data on which to calculate the amount of the economy to be made in the way here suggested. It is probably not an exaggeration to put it at the whole of the Unemployment Fund deficit and it might conceivably eliminate also the necessity for the basic State contribution to the fund itself. In political circles the theory still to some extent exists that votes depend upon the widespread distribution of benefits, but a view which gave more credit to the national character, which frankly recognized the contributions of employers and employed as a tax, and the benefits as relief of distress, might in the chastened enlightenment of the present crisis be found to possess even greater electoral advantages. At all events, such conclusions are in keeping with any reasonable interpretation of the September election.

Unemployment insurance in this respect is only a sample of the whole range of social services, the most difficult and expensive of all the categories of public expense. Public

opinion, even in our present impoverished condition, is strongly in favour of the relief of distress and, indeed, of the provision of amenities necessary to maintain a well-understood minimum of decency in the standard of living. Is it not, however, now apparent that the bureaucratic machine has overestimated the intentions of public opinion? Where, for instance, opinion has determined that the hungry should be fed, or the sick healed, the bureaucrat has devised rules and regulations to force food and medicine on people who did not ask for them, and who were not in the minds of the public when the decision to undertake these services was first made. It may be said of all the social and educational services to-day that they involve expenditure on three separate classes of persons. First, those who really need them and for whom they were really provided. Second, those who by rule and regulation are brought, many of them very unwillingly, within their scope. And third, the new class of social profiteers, whose minds have been trained to think of "rights" where none exist, and who frankly look upon the public purse as a legitimate way of avoiding their own obligations. To talk of cutting down the social services as a measure of economy, when what is really meant is the elimination of these last two classes, is grossly to understate a serious moral obligation which rests heavily upon the nation as a whole.

ERNEST BENN.

International Trade Policy

THE latest report of the Economic Committee of the League of Nations, issued in early June, contained a most important and disquieting statement of fact. This was that in comparison with the average for 1930, the total export trade of 29 countries has fallen in value by approximately 50 per cent., while simultaneously unemployment has increased to the point where, according to the estimates of the International Labour Office, there are throughout the world approximately 25 million people out of work. While it would be an exaggeration to deduce that there is complete correlation between the size of international trade and the extent of unemployment, these figures leave no doubt that the two are closely connected, and indeed come as striking proof of the fact that one of the most serious consequences of the world crisis is its strangulation of international commerce.

Last February, at the annual meeting of Lloyds Bank, the Chairman said: "If this country has been compelled by force of circumstances to curtail its welcome to goods from other countries, I cannot help hoping that our action in this respect, which I agree was necessary, may be the means of opening the eyes of the world to the desirability of a wider and more hospitable change in regard to international trade." Since then, at home there has been instituted the general tariff of 10 per cent., followed by the higher duties on a large range of commodities imposed (partly in substitution for the Abnormal Importation Duties, now expired) on the advice of the Import Duties Advisory Committee, and by the more specific action, based upon the tariff as a foundation, for the reorganization of the iron and steel industry. In the Imperial sphere, we are now on the threshold of the Ottawa Conference, where far-reaching decisions affecting the tariff policy of every member of the Empire will almost certainly be taken. Finally, throughout the world, we are faced with a steady growth of import quotas and prohibitions, restrictions upon the making of foreign payments, and similar measures which, however necessary they may appear to the particular country adopting them, have the combined effect of bringing international trade nearer to vanishing point.

Clause 7 of the Import Duties Act empowers the British Government to enter into reciprocal low-tariff agreements with foreign nations. So far this clause has remained a dead-letter,

and indeed when the bill was introduced the Government definitely stated that no negotiations would be entered into with foreign countries until after the Ottawa Conference. Yet Ottawa will soon be past and gone, and in any case the steady and inexorable shrinkage of international trade and the spread of depression and unemployment is calling more imperatively every day for bold and decisive action.

Admittedly the difficulties at home and abroad are considerable. When the Import Duties Advisory Committee issued their first list of recommendations last April, they stated that in order to give British industry a reasonable degree of assurance, they did not propose to recommend any reduction in the new duties for at least twelve months. From the standpoint of British industry such assurance was essential to enable our manufacturers to formulate long-term plans, but it at once became apparent that it conflicted with our power to initiate or join in any concerted movements for the general reduction of tariffs, and so it was necessary to obtain from the Government a declaration that this undertaking of the Advisory Committee did not preclude the Government from entering into low-tariff negotiations with foreign countries. The Advisory Committee's plans for the reorganization, behind adequate tariff duties, of the iron and steel industry raises the same question in a more specific and acute form. Presumably the Government's declaration applies here too, but the iron and steel industry can fairly claim that their work of reorganization will be gravely affected, if while it is being carried out low-tariff agreements are arrived at with such countries as France, Belgium or Germany.

Nor must the Empire point of view be neglected. The task of arriving at equitable agreements at Ottawa between the members of the Empire will be difficult enough, in view of the many conflicting industrial and agricultural interests waiting to be reconciled. Any agreements there reached will have to be stabilized over a long-term period in exactly the same way as home tariff policy. Here again assurances given at Ottawa may easily conflict with mutual tariff agreements subsequently reached with such countries as Denmark or the Argentine.

Even in the field of foreign commercial relations, the road is not at all clear, for low-tariff agreements between ourselves and certain countries or groups of countries conflict at once with the principle of most-favoured-nation treatment. To-day

we have most-favoured-nation agreements with no less than forty foreign countries, and in most cases we engage not to impose upon imports from them other or higher duties than those charged upon similar goods produced or manufactured in any other foreign country. Most of these agreements are terminable at less than a year's notice, but in seven cases longer notice is required, running up to 1935, 1936, 1937, and in one case to 1939. Even apart from the practical difficulty of terminating these agreements sufficiently quickly, there is the question of whether it would be prudent to do so, and here it must be recalled that only last month the Economic Committee of the League expressed itself in favour of the general principle of most-favoured-nation treatment.

These are the chief difficulties in the way of carrying into effect clause 7 of the Import Duties Act, which relates to low-tariff agreements with foreign countries. Yet at times like these, it is the duty of Governments to take the long view and to seize upon essentials, and the fact still remains that the freeing and revival of international trade is one of the most essential needs of the moment. Once this fact is admitted, it becomes the duty of the Government to cease regarding the difficulties as insuperable, and instead to find ways of overcoming them.

The first duty of the Government, therefore, is to regard the Ottawa Conference not as an end in itself, but as the initial step towards world rather than Empire recovery. To quote the concluding sentences of a leader that appeared in *The Times* on June 13th, " Effective agreements between the Empire countries cannot fail to lead to similar agreements with and between countries outside the Empire. The final purpose of Ottawa is to point the way towards world recovery." This thought places the entire function of the Ottawa Conference upon a totally different plane, and shows that it can and ought to be made an instrument for the restoration of world commerce. It equally shows that it is the duty of the British and Dominion Governments to frame their scheme in such a way that it can be enlarged to include other nations who want to join it and are ready to abide by its provisions.

The next duty is that of convincing both home and Empire public opinion, and in particular to show those who directly benefit from tariffs and preferences that they stand to gain far more than they will lose from any downward revision of duties required by reciprocal tariff agreements with other countries

which lead to a general lowering of trade barriers and liberation of international trade. The League of Nations' figures cited at the beginning of this article form powerful evidence in support of this argument, but in view of the serious damage already being done to British and Empire export trade by the high tariffs and other restrictions upon commerce imposed by many foreign nations, it is highly probable that public opinion even in industrial circles is already convinced as to this need.

Finally comes the attitude to be adopted towards foreign countries. The Governments should seriously consider whether the principle of most-favoured-nation treatment is worth preserving, or whether it would not be better to denounce outstanding agreements in order to clear the way for reciprocal low-tariff agreements with those foreign countries who are willing to enter into negotiations. It is unwise to dogmatize too closely on this point, and it might be better at present for the Government to content itself with announcing that it was prepared to receive overtures from abroad, and that the most-favoured-nation clause would not be permitted to stand in the way. In any case, the ultimate objective is clear. It is the removal, as far as possible, of existing restrictions upon trade, so as to establish over as wide an area as possible economic freedom and sanity.

Conversion of 5% War Loan—Income Tax

The writer of "The War Loan Problem" article in the June issue of this Review was mistaken in his statement regarding income tax. The eventuality he foresaw was removed by Section 30 of the Finance Act, 1926, which provided for the adjustment of the assessment on War Loan interest to the actual income for each year where, owing to the sale, etc., of stock, that amount of income differed from the interest received during the previous year. It will, therefore, not be necessary for any acceptor of a conversion offer to have to bear income tax twice over. The nett effect of such acceptance would be that the holder would pay on the aggregate amount of income from the old and the new stocks during the year of conversion.

Finance and Industry

(18) The Foreign Exchanges—(1)

A RATE of exchange between two countries is the price of one country's money in terms of the others. In London it is customary to quote most (but not all) rates as the price of one pound sterling expressed in foreign currency. Thus the New York rate of \$3.67 means that £1 is worth \$3.67. Certain South American and Far Eastern rates, however, are quoted the other way—that is, the price of an Argentine peso or Japanese yen is quoted in pence. Australia, South America and New Zealand also use the pound sterling, and in these cases the rate between them and London is quoted in the form of so many of the Dominion's pounds per £100 sterling. In New York most rates represent the price in cents of foreign units of currency, but the pound sterling is customarily quoted in dollars.

It is essential to realize which way an exchange rate is quoted in order to understand what it means when a certain rate goes up or down.

When the New York rate falls from \$3.67 to \$3.62, the fall is really in the price of the pound sterling in American cents. Thus every English buyer of American dollars has to pay more in sterling for a given number of dollars, and every American buyer of sterling has to pay less dollars. When the Japanese yen falls from 2s. 1d. to 1s. 11d. the converse is obviously the case. British buyers of yen have to pay less sterling, and Japanese buyers of sterling have to pay more yen. When sterling becomes worth less in a given foreign currency, the exchange is said "to have moved against London," while a movement the other way is said to be "in favour of London." Difficulty sometimes arises in the mind of the layman when a fall occurs in a rate which takes the form of so much foreign currency per £1 sterling, for many people do not realize that what has fallen in price is the pound itself, and not the foreign money. The same difficulty often arises over the Dominion exchanges, for it is necessary to remember that a rise in the Australian rate signifies a depreciation of the Australian pound.

Now why is it that exchange rates rise and fall? The broad answer is that an exchange rate (which is the price of

one currency in terms of another) varies for the same reason as the price of anything else, namely, that of supply and demand. If the demand for a given currency increases, its price in other currencies goes up, or the exchanges move in its favour. If offerings of that currency exceed the demand, the exchanges move against it. In other words, if the New York rate moves from \$3.67 to \$3.72, it means one thing and one thing only. More people are seeking to sell dollars for pounds than those wishing to sell pounds for dollars: and so dollars become cheaper in terms of pounds.

It is, therefore, necessary to discover why people should wish to sell dollars for pounds, or vice versa. Here again the broad answer is that anyone wishing to spend or invest money in this country, or to pay a debt previously incurred in sterling, must buy pounds in order to do so; for foreign currencies are not legal tender in Great Britain. It is for similar reasons that other people buy francs or dollars, and so the broad test of the effect of any commercial or financial operation upon the exchanges is this:—Does it necessitate a purchase of pounds or a purchase of foreign currencies? In the former case the pound will improve in value as a result of the operation; in the latter case it will depreciate.

Beginning first with transactions upon current account, these may be analysed in the following two columns:—

Pounds are purchased to pay for	Foreign currencies are purchased to pay for
Exports of British goods.	Imports of foreign goods.
Re-exports of foreign goods.	Expenses incurred by British tourists abroad.
Foreign use of British ships.	Interest and dividends earned by foreign capital invested in Great Britain.
Foreign earnings of British merchants, bankers, insurance companies, financial houses, etc., etc.	Interest paid on foreign deposits in British banks and on foreign holdings of British bills of Exchange.
Foreign visitors' expenses in England.	War debt annuity payments by Great Britain.
Interest and dividends earned by British capital invested abroad.	
Reparations and War debt annuity receipts by Great Britain.	

The difference between the sum totals of these two columns represents our balance of payments on current account. Normally it is in our favour, that is, the purchases of pounds for these purposes exceed the purchases of foreign currencies.

Next come transactions upon capital account. These are similarly analysed below :—

Pounds are purchased to finance	Foreign currencies are purchased to finance
Foreign purchases of British securities. British sales of foreign securities. Repayment of British loans to foreign interests (including sinking fund payments). Withdrawals of British funds from foreign banks. Gold shipments out of England.	British loans to foreign interests. Investment of British capital abroad. Repayment of foreign loans to British interests (including sinking fund payments). Foreign sales of British securities or sterling bills of exchange. Withdrawals of foreign deposits from British banks. Gold shipments into England.

In general, an influx of capital into Great Britain involves a purchase of pounds ; an efflux involves a sale.

Now as Mr. J. M. Keynes pointed out very clearly in the April issue of the REVIEW, every purchase of pounds must be balanced by an equivalent sale. That is, the sum total of all items in the two left-hand columns must equal the sum total of the two right-hand columns. That means that somewhere in the different columns there must be a balancing factor, which comes into play in case of need. So long as the gold standard is in force, that balancing factor is gold shipments, and so it is now necessary to describe the operation of the gold standard.

Each country on the gold standard fixes by law the weight of fine gold that a given unit of its currency shall contain. Furthermore, the central bank of each such country is bound by law to buy and sell gold in exchange for its notes at fixed prices corresponding to the gold content of that country's currency; though it is usual to give the central bank the benefit of a slight turn between the buying and selling price. Under the full gold standard, such as existed in England before the war, the central bank is also bound to encash for gold coin any of its notes presented to it by the public; so that gold coin circulates in the country. Under the gold bullion standard, such as existed in England from 1925 to 1931, the central bank is not bound to encash its notes, but is bound to sell gold bars (of 400 oz. worth normally about £1,600) at its fixed price. The result is that gold can no longer dribble out of the central bank into internal circulation, but bankers and others are still free to buy gold from the central bank for shipment abroad, for they normally

ship gold in quantities corresponding to a large number of gold bars, and so are put to no inconvenience by this limitation.

Under the gold standard the basic rate of exchange is the "mint par of exchange." When we say that the mint par of exchange between London and New York is £1 = $4.866, what we mean is that 1,000 sovereigns contain as much fine gold as $4,866, and this ratio is derived directly from the laws governing the gold content of the sovereign and the dollar. If gold is bought from the Bank of England, shipped to the United States, and re-sold to the New York Reserve Bank, it follows that for every £10,000 paid for the gold to the Bank of England the New York Reserve Bank will pay out $48,660.

Suppose that a British trader wishes to buy dollars. He enquires of his bank the price, and for the sake of argument, is quoted $4.830. In theory he at once sits down and calculates the cost of shipping gold to New York, taking into account freight, insurance and the fact that his gold will earn no interest for him during transit. He will probably find that if he buys £10,000 worth of gold in London and re-sells it for $48,660 in New York, he will have to pay out about $260 for the cost of shipment, etc., leaving him with $48,400. This is more than he will get, if he accepts his banker's rate of $4.830, and so he refuses to deal with his bank and ships gold.

The same would happen if an American trader had to buy sterling, and was offered a rate of $4.90. He could buy £10,000 worth of gold for $48,660 in New York, while the shipment to London would cost him about $260; or a total cost of $48,920. This is cheaper than if he accepted his banker's rate of $4.90, and so he in his turn would ship gold.

The result is that under the gold standard the exchange should never move beyond these limits of $4.840 and $4.892, corresponding to the traders' net receipts after paying for the cost of shipping gold. These rates are known as the "gold points." From our point of view the lower rate is called the "export gold point," for it is the rate at which it becomes profitable to ship gold to New York. The higher rate is the "import gold point," for it is the rate at which it becomes profitable to ship gold to London.

Similar gold points exist for every exchange rate between two countries on the gold standard. The only necessary conditions are that these central banks shall be bound to buy and

sell gold, and that the exportation of gold from both countries shall be legal.

When we suspended the gold standard last September what really happened was that the Bank of England was relieved of its legal obligation to sell gold. This destroyed the export gold point, and allowed the exchange rates to fall below it without limit. As offerings of pounds exceeded the demand for them —largely due to the withdrawal of foreign capital from Great Britain then taking place—most exchange rates at once fell far below the export gold point.

The gold points cannot be fixed precisely, for they depend upon the cost of gold shipments, which itself is a variable quantity. Again, in practice the trader does not himself ship gold. What happens is that so soon as the exchange moves outside the gold point, some banker will at once ship gold on his own account, and will turn the money he obtains for the gold on its arrival back into the money in which he paid for the gold on its departure. This operation will both yield him a small profit and also involve a purchase of the currency which had depreciated to just below the gold point. This purchase will tend to drive the exchange rate back inside the gold point and, in fact, gold shipments will continue until the rate is so driven back. In short, the moment a rate moves outside either gold point, the balancing factor of gold shipments automatically comes into play.

The automatic action of the gold standard, however, extends still further; for any influx or efflux of gold goes into or comes out of the gold reserves of the country's central bank. Now suppose that the exchanges go against a country so that its central bank loses gold—its bank at once has to take steps to protect its reserves. To do so it may raise Bank rate, and with it all other interest rates, and simultaneously contract the national basis of credit, through open market operations such as have been described in previous articles. This forces the commercial banks to call in their loans, so that traders have to throw their goods on the market, and investors and speculators have to realize their securities. Therefore not only do interest rates rise, but commodity and security prices fall.

This makes the country in question a relatively cheap market to the rest of the world, and also a centre where a relatively high return can be earned both on long-term investments and short-term deposits. So its exports of commodities

expand, and investment money flows into the country. Simultaneously it can no longer afford to import foreign goods at world prices, and so its imports are reduced. All these movements of goods and capital combine to increase world demand for its currency, and so its foreign exchange rates improve and the efflux of gold is checked.

When a country gains gold, money becomes cheap, credit plentiful, and prices rise. Foreigners realize their securities and withdraw their deposits, while its import trade expands and its export trade falls away. This reduces the demand for its currency, the exchanges move against it, and gold ceases to come in.

This is the normal operation of the gold standard. Where it is liable to break down is that when a country loses gold, all internal prices and costs are not automatically reduced, as they should be to give the gold standard full play. The cost of labour—i.e., wages—tend to remain rigid owing to Trade Union pressure and long-term wage agreements. The cost of Government—i.e., national expenditure—also remains rigid, even in face of a heavy and general fall in commodity prices. These are a few, but only a few, of the reasons why the gold standard has temporarily broken down in this and other countries. In fact, it broke down because abnormal circumstances, both internal and international, did not allow it to function.

Notes of the Month

The Money Market.—While little definite change has occurred in the money market during recent weeks, rates have continued to fall, until on June 17th the week's Treasury bills were issued at the record low average tender rate of 16s. 0·06d. per cent. Discount rates have been equally weak, with "hot" Treasury bills quoted at $\frac{3}{4}$ per cent. and even lower, and three months' Bank bills at 1–1$\frac{1}{16}$ per cent. Money has, on the whole, remained very easy and plentiful, though at times Stock Exchange demands arising out of the activity in the gilt-edged market have tended to deplete supplies. During most of June the clearing banks continued to lend at a minimum of 1$\frac{1}{2}$ per cent., and certain other houses stood out for a minimum of $\frac{3}{4}$ per cent. Elsewhere, rates have at times run as low as $\frac{1}{2}$ and $\frac{1}{4}$ per cent., and frequently large balances proved unlendable. On June 28th, however, the clearing banks reduced these minimum rates for loans to 1$\frac{1}{4}$ per cent. though 1$\frac{1}{2}$ per cent. was still charged for loans over the turn of the half-year. The War Loan dividend was paid at the beginning of the month without causing any unusual ease. The Treasury was well supplied with funds through the call on the 3 per cent. Treasury bond issue that fell due on June 1st, while the authorities also had in their possession most of the early June maturities. No borrowing upon Ways and Means from the Bank was, therefore, necessary, and so a temporary inflation of credit was avoided. The general official policy apparently has been to keep money plentiful and easy, but not to try to infuse fresh credit into the country until confidence is restored, and with it a fresh demand for credit; and this clearly is contingent upon developments abroad. It may be assumed, however, that any revival in trade will not be checked by an insufficiency of credit.

The Foreign Exchanges.—Until the middle of June the leading foreign exchanges remained very steady, with New York quoted at about \$3.67 and Paris at Frs.93$\frac{1}{4}$. The steadiness, in fact, was such as to give rise to an impression that sterling had been definitely stabilized at that level. In reality, the efforts of those responsible for the control of sterling were perforce directed mainly towards preventing a depreciation of the dollar, due to lack of confidence in the stability of American finances and to the steady withdrawal of French

balances from New York. The extent of these efforts is illustrated by the size of the Bank of England's gold purchases, which up to June 20th amounted to £14·3 millions; by the growth in its holdings of Other Securities (mainly foreign exchange) from £71·9 millions on May 4th to £86·4 millions on June 15th; and by the recent discount upon forward dollars which at the end of May was as wide as 6 cents for three months' delivery. During the latter part of June, however, a change came over the position. A better feeling appeared in New York, and more important still, by then the French had withdrawn practically all their dollar balances. In consequence the New York rate improved to $3.61. These fluctuations show that it was erroneous to assume that sterling had been definitely pegged, and while it undoubtedly remains the British policy to check wide fluctuations and to prevent speculative positions from being built up, it will not be thought necessary to check movements within reasonable limits.

The Stock Exchange.—After remaining dull during the early part of June, markets reacted favourably to the approach of the Lausanne Conference. British Government securities continued their improvement, and Funding Loan, Victory Bonds and 4 per cent. Consols have all risen above par. European bonds which previously had depreciated heavily, improved on the appointment of the protective committee for British subscribers to League of Nations Loans, but weakened a few days later on the announcement of the Austrian transfer moratorium. Home rails have remained very weak as a result of poor traffic returns and uncertainty regarding coming Preference dividends in some cases; and on June 23rd it was announced that interim dividends at only half the usual rate would be paid on the L.M.S. 4 per cent. and 5 per cent. redeemable Preference Stocks, while the interim dividend on the 4 per cent. (1923) Preference Stock has been passed. As regards industrials, Ordinary shares have been a trifle firmer, owing to the more cheerful view of the international outlook taken by the market, but business remains narrow and prices sensitive, so that developments abroad, whichever way they went, would have an immediate effect. The rubber market remains neglected, and little interest has been taken recently in mining shares, as the recent South African dividends mainly confirmed previous expectations.

Overseas Trade.—In comparison with April, imports for May increased from £53·5 to £55·7 millions, while exports of British goods fell from £34·8 to £30·2 millions. The decline in exports, however, was partly fortuitous, for during April exports of ships amounted to £1·5 millions, which is an unusually large figure under current conditions. The corresponding May figure was only £0·3 million while the new tariff duties imposed at the end of April have so far had little effect upon imports of foreign manufactured goods, which stood at £11·6 millions in May, against £11·8 millions in April. In the woollen industry the removal of the Abnormal Importation Duties has been followed by a slight increase in imports. A summary of the returns for the first five months of the year is given below :—

Description	Jan.–May, 1931	Jan.–May, 1932	Increase (+) or Decrease (–)
	£ mn.	£ mn.	£ mn.
Total Imports	349·3	302·5	–46·8
Retained Imports	319·6	277·3	–42·3
Raw Material Imports	76·3	75·9	– 0·4
Manufactured Goods, Imports... ...	104·2	69·9	–34·3
Total Exports, British Goods	169·7	157·3	–12·4
Coal Exports	14·1	13·1	– 1·0
British Manufactured Goods, Exports ...	128·7	120·1	– 8·6
Re-Exports	29·7	25·2	– 4·5
Total Exports	199·4	182·5	–16·9
Visible Trade Balance	–149·9	–120·0	+29·9

The depreciation of sterling and the tariff have between them reduced total imports by £46·7 millions since last year, and those of manufactured goods by £34·3 millions. Exports of British goods have fallen by £12·4 millions and re-exports by £4·5 millions, these declines being due to the intervening fall in prices, the accentuation of the trade depression and to foreign restrictions upon trade. The net result is an improvement of £29·9 millions in the adverse trade balance for the first five months of the year. So far as can be judged at present, this improvement will not be sufficient to offset last year's adverse balance of payments of £110 millions, and it appears likely that there will be a moderate deficit this year.

Home Reports

The Industrial Situation

Little change has occurred in home industries during the past month, and the most that can be said is that they are maintaining their ground. Too much significance should not be attached to the slight increase in unemployment during May. The May returns were collected shortly after Whitsun, when many firms were still closed down for extended holidays, and the totals were consequently inflated. Complaints of the effect upon British export trade of restrictions upon imports and foreign exchange dealings in force abroad are increasing in number, and there is no doubt that much business is being lost to this country as a result. So far there is evidence that the new tariff duties are benefiting certain industries, but it is still too early to determine its total effect. Some foreign steel producers profess to regard the new steel duties as temporary and abnormal, and are still quoting competitive prices in order to keep a place in the British market.

Agriculture

England and Wales.—According to an official report, corn crops at the end of May were not unpromising, except on heavy land where the plant was thin and of a poor colour. Early potatoes, although backward, were looking well, and the main crop where showing had a healthy and promising appearance. Drilling of roots has been hindered by unfavourable weather. Early sowings of mangolds were a fair plant. Though backward, hop bines were growing fast at the end of May. Cattle and sheep did moderately well. Milk yields were generally maintained, and in some cases showed a seasonal increase.

Scotland.—The heavy rains in May were succeeded by a period of warmth and sunshine in June, which has been very beneficial to the hay crop. Recent conditions have also favoured other growths, and although the surface of the ground has hardened quickly in the strong sun, crops generally are looking very well. At most of the livestock centres in Scotland supplies have been larger and with the warm weather, and a slackening of the demand from the South, prices have eased appreciably. Grain markets are also dull while there is little demand for old potatoes even at a reduced price.

Coal

Hull.—Shipments from the Humber remain limited, largely on account of the licensing restrictions now in force in many of the near Continental countries. Prices rule easy.

Newcastle-on-Tyne.—There is little new business and as contracts expire great anxiety is in evidence to obtain new orders. The further reduction of " quotas " allowed abroad for British coal is also causing anxiety.

Sheffield.—Demand is disappointing, stocks are accumulating, and prices are slightly lower. The export market is dull, and in the home trade both industrial and domestic fuels are in poor demand.

Cardiff.—Business is quiet and most descriptions are in abundant supply at schedule prices. Owing to the intermittent working of the pits, however, there is at times some difficulty in obtaining named brands. There is practically no forward enquiry. Prime anthracite continues scarce, and is firmly quoted.

Newport.—There has been a further decline in foreign shipments, but coastwise shipments have improved. There is every prospect, however, of the whole of the new Egyptian State Railway contract being shipped from here, and this will give a much needed stimulus both to the collieries and the docks.

Swansea.—Anthracite requirements are being satisfied without difficulty, though best large is exceedingly scarce. Beans of all quantities are well sold and spot lots are practically unobtainable. Rubbly Culm is scarce with prices advanced, and it is reported that stems are full well into July. Shipments of anthracite show an increase of nearly 90,000 tons in May as compared with April, this being due to increased shipments to Canada.

East of Scotland.—Short time is general in both Fife and the Lothians. In Fife navigation coal is moving off very slowly and steams are also dull, while washed fuels are difficult to dispose of.

Glasgow.—The scarcity of foreign orders and the seasonal decline in home demand is severely handicapping business, and many pits, if not closed down, are working short time. Shipments for the year to date, however, are about 700,000 tons higher than last year.

Iron and Steel

Birmingham.—Consumption is bad and trade quiet. In spite of reductions in British prices and the 33⅓ per cent. duty, foreigners are still maintaining their position in the British market.

Sheffield.—While conditions remain unsatisfactory, there appear to be signs of a slight improvement. Production of pig-iron has slightly expanded and the output of open hearth steel remains the same. Stainless and acid-resisting steels continue to find increasing uses, and the reports from the rolling mills are more reassuring.

Teeside.—Output of pig-iron is in excess of requirements but makers anticipate some improvement in demand for hæmatite following the imposition of the 33⅓ per cent. duty on imported iron. South Wales has used substantial tonnages of Dutch hæmatite iron and it is hoped that some of this business will come to this district. The steel trade is depressed. A certain amount of constructional work is available but the volume is quite inadequate.

Newport.—While imports have declined, exports were considerably larger, this being mainly due to two fairly large shipments to the Soviet.

Swansea.—The tinplate trade is working at about 60 per cent. of capacity. Exports from Wales for the year to date are at a rate of nearly 40 per cent. above those for last year.

Glasgow.—Steady employment is still lacking, and if some producers are not so short of orders as they were, the improvement is not important. Tariffs have not so far had much effect on business and will probably be revised in some cases before long. Although Continental pig-iron is now subject to a 33⅓ per cent. duty, Scottish producers are still faced with the competition of Indian pig-iron, which as an Empire product is admitted free.

Engineering

Birmingham.—There is a falling off in home orders in the motor trade, but there are encouraging reports of an improvement overseas. The motor-cycle trade should benefit from the recent T.T. races, but unemployment in industrial

areas is handicapping home business. The electrical trade continues to show a slight increase.

Coventry.—Some falling off in demand has taken place in the motor-car trade, and there is little change in the cycle trade. Some slight improvement in business is reported by machine tool makers, this being probably due to the tariff.

Manchester.—There is no improvement, and substantial orders are scarce. In the electrical trades export business is difficult to arrange, owing to exchange restrictions.

Sheffield.—Certain sections of the tool trade are definitely benefiting from the imposition of the tariff. Export trade has received a stimulus from the fall in the value of the pound sterling.

Glasgow.—Unemployment is very prevalent. There is no indication of any improvement in the marine branch.

Luton.—In the motor industry home trade shows a slight improvement and export trade is holding its own. Engineering as a whole is quieter, but there are more enquiries in the hydraulic section.

Metal and Hardware Trades

Birmingham.—Business is irregular and has not borne out the promise shown earlier in the year. Trade in metal smallwares is somewhat affected by seasonal conditions, but is not unduly disappointing. The tube trade remains very quiet and good orders are scarce.

Sheffield.—In the cutlery trade the busiest section is that of razor blades, which has so far developed that it is now one of the most important branches. Orders for cutlery from retailers are not coming in freely, but demand from the hotel and catering trades has improved slightly.

Cotton

Liverpool.—Business has been dull and quiet. Sentiment has generally been bearish, some uneasiness being caused by the failure of two prominent firms with Continental connections. A further depressing factor has been the favourable advices regarding the American crop, indicative of an

abundant supply of the raw material and of a carry over of about 13 million bales, which is in excess of the world's needs for the current season. In addition, consumption is gradually falling off; in the United States in May it was down still further at 332,000 bales, compared with 367,000 bales for April. The market has received some support from the reports from U.S.A. of boll weevil infestation, but prices have been marked at slightly lower levels. Demand for the raw material is still mainly for the cheaper American qualities. The reports from Manchester are poor; although there have been fair enquiries from India, little business has been passing and buyers have adopted a policy of marking time.

Manchester.—The tone of the market has been more unsettled, and there has been a further decline in raw material prices. Current sales of yarn and cloth have been much below production, and in the weaving section labour troubles continue, though there is not much fear of a general stoppage of machinery. The position in India seems better, but there is practically no improvement in demand, and the Chinese auctions have been disappointing. Conditions on the Continent remain unsettled. Demand in the home trade is reported better, probably owing to the advent of the holiday season.

Wool

Bradford.—A moderate amount of business is being transacted, but the position is not satisfactory. International difficulties are affecting this centre and until these are solved, no definite improvement can be expected.

Huddersfield.—The spring trade was rendered disappointing by bad weather conditions. Fine worsted makers are still finding business difficult, and many mills are working short time. Some delay has recently occurred in the taking up of orders previously booked.

Hawick.—There is little change in the Border tweed trade, and all the factories are on short time. Few repeat orders for next winter are being received, and the new designs for next spring are meeting with a very poor response. Hosiery manufacturers are also quiet, even the demand for fancy goods being poor, while spinners and dyers could both cope with a good deal more work.

Other Textiles

Dundee.—Conditions in the jute market are unchanged and business in every section is still difficult to transact. The situation has become so serious that further curtailment of production has been decided upon.

Dunfermline.—Buying in the Fifeshire linen trade remains very limited. Spinners are so short of orders that they are refraining from buying raw material to any great extent.

Leather and Boots

Northampton.—The recent spell of fine weather has brought a number of small orders to the boot and shoe trades. Export business in footwear is quieter than ever, but exports of leather are still above the average.

Shipping

Hull.—Tonnage is in very little demand and rates rule easy.

Liverpool.—Demand for tonnage has been quiet with rates generally easy. River Plate homewards has been quoted lower.

Newcastle-on-Tyne.—The outward freight market is unchanged, but River Plate is firmer, mainly owing to the reduced rates obtainable homewards.

Cardiff.—The freight market is a little better, this being probably due to a seasonal shortage of tonnage, especially of the smaller type.

Newport.—Outward coal freights have continued scarce owing to licence restrictions and quotas, and freight rates show no improvement. The number of laid up ships has increased by two during the past month.

East of Scotland.—Only about a dozen vessels were on loading turn at the Forth coaling ports towards the end of June. Other branches of shipping, particularly at Leith, remain very depressed.

Glasgow.—Tonnage to load coal is in restricted demand, and orders are being quoted sparingly in all trades. Boats are not pressing for any improvement and rates are on the whole rather better than a month ago.

Foodstuffs

Liverpool.—Trade in wheat has been only small and prices have suffered sharp declines, mainly under the influence of pressure by Canadian shippers. The favourable reports of the spring crops in the United States and Canada have had a depressing effect on the market, and in addition it is likely that European countries will require less than usual owing to good home crops. On the other hand the low estimates of the American Hard winter crop have had a firming influence. The Maize market has been steady and has absorbed the Plate shipments without any appreciable change in prices. Danish bacon arrived in large supplies, with demand very satisfactory, but other Continental bacons were rather scarce; while American bacon remained steady and hams firm at rather higher prices. Lard proved a steady trade without fluctuations in values. The continued low prices prevailing for Continental butter had a weakening effect on sales, and trade was dull throughout; consumptive demand was, however, fairly good at the low retail rates. Cheese was in plentiful supply with a fair demand, especially for home makes, but prices were poor compared with previous years. In the canned goods section meats were quiet and fruits in better demand, both at almost unchanged values.

Fishing

Brixham.—Landings for May showed a slight improvement. Prices for first-grade fish were firm, but seconds were lower. The effect on the port of the 10 per cent. duty is being watched with interest. Landings by Belgian trawlers are falling off and it is reported that over 250 of their trawlers are laid up in Ostend, but it is not known if this is attributable to the British duty or to local conditions in Belgium.

Lowestoft.—During May, 60,454 tons of fish, valued at £812,720, were landed by British vessels in England and Wales, compared with 59,031 tons valued at £815,895 in May, 1931. There was thus a decrease of 5d. per cwt. in the average value. Owing to restrictions imposed on imports of fish into some Continental countries the usual supplies were diverted into England, May showing the biggest import of any month this year, though the value shows a remarkable decline.

Towards the middle of June a contract was concluded by a new organization for the sale of 100,000 barrels of herrings to Russia.

Penzance.—The past month has been fairly good for mackerel fishing. Catches have not been so heavy, but prices have remained firm. The local line fleet have had fairly heavy catches, chiefly skate and ray, but owing to heavy foreign imports prices have fallen considerably, the price of live turbot falling as low as 2½d. per lb. Foreign trawl landings at Newlyn have somewhat decreased.

Scotland.—Landings of white fish at East Coast ports have been light, with prices fairly good. The herring fishing is now beginning to show better results, and though catches are still irregular, the quality is better. Prices have fluctuated considerably.

Other Industries

Carpet-making.—Demand is not so great as in the last few months mainly owing to the drop in the import duty from 50 to 20 per cent. Buyers are less eager to order freely as they anticipate keen competition again from abroad. The qualities most in demand are spool Axminsters. Dominion trade is improving in Australia and New Zealand. Prices of raw materials are lower.

Chemicals.—Prices for heavy chemicals generally remain firm and there is rather a better tone. Business is steady in fine products.

Paper-making and Printing.—Kent reports orders to be scarce in the paper-making trade and several mills are on short time. There appears to be no hope of improvement in the near future, and owing to the fact that the seasonal quiet period is approaching, the outlook is none too promising. The Tariff has benefited the Manchester wrapping-paper section and manufacturers are fully employed; in some cases overtime is being worked. In other classes competition is keen, and orders are being booked at fine margins. Edinburgh reports that there is a certain home demand, but export demand is at a standstill, and most mills are working short time. In the printing trade, the position is if anything worse and unemployment is very severe.

Pottery.—Business is very slack and most mills are closing down alternate weeks owing to lack of orders. Home markets are very quiet and export trade shows a considerable falling off.

Tin-mining.—The price of tin has fallen by £7 15s. in a week to £112 2s. 6d. The recent unfortunate failure on the metal exchange had a disastrous effect on prices, but a recovery has since been registered.

Timber.—Trade in Hull has been quiet. House building schemes are being held up pending sanction by the Ministry of Health and this is restricting a demand for building sizes. The new goods from Russia are arriving freely, but the trade is below normal for the time of year. Considerable progress in selling Russian goods forward has been made by the Timber Distributors Ltd. and the unsold balance is small. Finnish shippers have lately shown signs of reducing their prices to compete, but they are not meeting with much success as a large quantity of Russian goods have already been placed.

Dominion Reports

Australia

From the National Bank of Australasia Limited

Trade was checked during May by the parliamentary elections which were held in three States and also by the concentrated efforts made to collect taxes. The textile industries, however, are supplied with orders for several months ahead, and there is a slight improvement in the building industry. Prospects for the coming year for wool, wheat, butter and lambs are excellent. Export trade is well maintained and for the past ten months there was a favourable trade balance of £34 million sterling.

Canada

From the Imperial Bank of Canada

The season has been late in both the East and West, but on the Prairies there has been more moisture than for several years, and the crop outlook is very promising. The wheat acreage is well maintained, and in mid-June farmers were hoping for 70 cents a bushel. These hopes were based on curtailments of acreage elsewhere, unfavourable crop conditions in the United States, and the cessation of exports from Russia. Canada, in fact, has lately received some import orders from Russia. There has been little change in Canadian industrial conditions. The spring expansion in trade has not been maintained, and merchandise is only moving slowly. Iron and steel production is below normal, and automobile production has been disappointing. The textile and boot and shoe industries are doing relatively well. Little improvement in unemployment is noticeable.

India

The Bombay raw cotton market was disturbed during May by conflicting reports regarding the American Farm Board's intentions, and business generally was disorganized by the communal riots. The lower level of raw cotton prices have stimulated demand from foreign countries, while conversely heavy arrivals of American cotton are reported at Bombay. Demand for both Manchester and Indian piece-goods

is very restricted and local mills are having to carry heavy stocks. At Calcutta, business in loose jute improved during May, but there was little change in baled jute. Reports of the new crop remained favourable. Rangoon reports the rice and timber trades to be quiet and depressed. The Indian market was disorganized by the Bombay riots, and other markets are affected by the depression. There has been a little more activity in hardware, but dealers hold large stocks and are placing few fresh orders.

Irish Free State

In business circles the political situation, and especially its uncertain outcome, is viewed with grave concern. Numerous increases were made in the tariff by the recent budget, and a bill has been under consideration for the control of manufactures, which *inter alia* provides that all external firms wishing to engage in manufacture must be licensed. Foreign capital will be welcome, but must not be dominant in the new industries which it is hoped to establish behind the tariff. Crops and live-stock have benefited from the recent fine weather and an unusually heavy harvest is expected. Markets are weaker, and export trade in particular is very poor.

Foreign Reports

France

From Lloyds and National Provincial Foreign Bank Limited

Imports for the first five months of 1932 amount to Frs.12,676 millions, against Frs.19,281 millions for the first five months of 1931. The corresponding export figures are Frs.13,703 millions for 1931 and Frs.8,507 millions for 1932. The adverse visible trade balance has thus fallen from Frs.5,579 to Frs.4,169 millions. The latest unemployment figures show 247,263 registered unemployed for early June, against 276,125 on May 7th. There are a further 25,579 unemployed no longer entitled to benefit but under the care of the poor law authorities. The Bourse has been mainly dull, but at one time showed a tendency to improve under the influence of a better French political outlook and the restoration of confidence on Wall Street after the balancing of the United States budget.

Bordeaux.—Unfavourable weather is delaying the development of the vines and fears of a poor vintage are creating a fair demand for the stocks still to be disposed of at the châteaux. Old wines are still in demand, but trade generally remains quiet. In the resin market prices have given way slightly and stocks have increased. The tendency remains weak.

Le Havre.—During the four weeks ended June 15th, stocks of coffee rose by about 30,000 bags. Home demand was well maintained, and there was a net decline of four points in prices during this period. Cotton prices fell by 20 points for both spot and future contracts, mainly as a result of good weather and crop reports. The lower prices have encouraged buyers, and demand improved slightly.

Lille.—The textile industries remain dull and inactive, and most undertakings are working short time. Business in the cotton trade has been restricted by the fall in raw cotton prices, and current prices for flax, hemp and jute are so low that spinners are closing down part of their plant. Buyers have no confidence in current prices, and so are refusing to operate, while export trade is being progressively hampered by the imposition of import and foreign exchange restrictions abroad.

Roubaix.—The general situation in the woollen industry is no better. There is a very limited turnover of tops, and

prices are still sagging. Combers are only working at 50 per cent. of capacity, and some may have to close down completely during the summer. Demand for hosiery yarn is fairly well maintained, and sales of weaving yarns have perhaps been a little better. Unemployment has also improved slightly, but this may be a purely seasonal movement. Stocks of tops in the local combing mills now stand at Kilogms. 14,531,000, which with one exception is the highest monthly total since September, 1929. One local firm of spinners is transferring some of the machinery to England.

Marseilles.—Markets in copra, ground-nuts and olive oil have been very quiet. A new tax of 6 per cent. on oil and soap came into operation on May 1st, and manufacturers bought heavily in anticipation of it. Business consequently has been very limited since its imposition, and prices of ground-nuts have been weak. Export business in olive oil has also been very restricted, but prices have remained almost stationary.

Belgium

From Lloyds and National Provincial Foreign Bank Limited

Stocks of coal have now risen to about 4,000,000 tons, and business is more difficult even than before. There is no improvement in the iron and steel trades, and several companies are considering the possibility of further reducing their output instead of conceding further price reductions. In the glass industry two more bassins have closed, and only three out of a total of 18 are now in operation. The outlook is very bad, except in the plate glass section where business is maintained by the cartel and international selling organization. Cement-makers report a satisfactory internal demand, and production has risen since April from 34 to 45 per cent. of capacity. Prices remain weak, and exports are lower by 40 per cent. in comparison with last year. On the Bourse, Belgian rentes remain steady, but elsewhere there are no buyers and prices are only maintained by the support of the Syndicate.

Germany

Apart from some slight increase during May in iron and steel production, industrial conditions remain very depressed. Coal production has lately been averaging only 234,000 tons

a week, against 292,000 tons for the same period of last year, while the engineering industry is only working at 30 per cent. of capacity, and finds that new orders are steadily falling away. Imports for the first five months of 1932 are returned at Mks.2,022·5 millions, against Mks.3,197·3 millions for the corresponding period last year. Exports have fallen from Mks.3,803·3 millions to Mks.2,482·8 millions.

Holland

Comparing the first five months of 1931 and 1932, imports have fallen from Fl.824 to Fl.571 millions, exports from Fl.574 to Fl.352 millions, and the adverse trade balance from Fl.250 to Fl.219 millions. The adverse visible balance for 1932 seems likely to be about Fl.500 millions. This is less than it was in previous years and should be covered by invisible income. Gold reserves continue to expand, and the metallic cover for the note issue is now over 100 per cent. The budget position is less certain, and it looks as if a deficit of Fl.170 millions will have to be provided for in 1932–33. The Government, however, has just received the report of a special retrenchment committee, and it is possible that this recommends sufficient economies to meet the deficit. There has been a slight seasonal decrease in unemployment, and the stock market reacted favourably to the opening of the Lausanne Conference. Money remains very easy.

Norway

A new agreement has been reached between Norwegian and foreign whaling interests, which will have the effect of limiting production during the 1932–33 season to about 2,000,000 barrels of oil, or to about 50 per cent. of the total capacity of the industry. A new Customs bill has recently been submitted authorizing the Government to impose emergency Customs duties for the protection of commercial interests. Under this bill, ordinary Customs duties may be increased by four times, or goods now duty-free may be subjected to a duty of 50 per cent. *ad valorem*. Steps have been taken to reorganize the Norwegian tanker fleet under a new body called the Tankskibs-centralen. Tonnage belonging to members of this body will be fixed or laid up by the controlling board in accordance with the freight market. The board will decide when the body will

begin to operate. The object of the scheme is to get rid of competition which has accentuated the depression of the industry.

Sweden

Financial conditions are now more settled, and the lowering of the discount rate to 4½ per cent. on May 17th was followed by a further reduction to 4 per cent. on June 3rd. On the latter occasion, too, deposit rates were reduced by ½ per cent. May witnessed a heavy decline in imports as a result of the new restrictions imposed by the Government. Exports were fairly well maintained, and timber shipments to the middle of June amounted to 350,000 standards, which is slightly better than the experience of last year. The strike in the pulp industry continues, and the consequent curtailment of production has made the price of sulphate pulp firmer. The reduction in the output of sulphate due to the strike is estimated at 40,000 tons.

Denmark

Restrictions against the importation of Danish butter imposed by different Continental countries have increased the importance of the British market and have also prevented any improvement in prices. English exporters are protesting against the Danish restrictions upon the provision of foreign exchange. Every effort is being made to satisfy their claims, and the position has lately become a little easier. The Exchange Centralization Office will remain in being at least until August 31st, and possibly until October 15th, and will then be replaced by other measures designed to restrict imports and to keep the krone linked to sterling.

Switzerland

From Lloyds and National Provincial Foreign Bank Limited

While home business remains steady, export trade has suffered severely from the world crisis, and it is calculated that for the first quarter of 1932, only 46 per cent. of the undertakings making returns were working at a satisfactory degree of activity. The Swiss Government is trying to assist export industries by establishing " compensation " agreements with various foreign

states with a view to obtaining concessions from countries whose sales to Switzerland exceed their purchases. A slight seasonal improvement in employment has taken place.

Spain

Revenue for the first quarter of 1932 is returned as 932 million pesetas against 867 million pesetas for the same period in 1931. The importation of 150,000 tons of wheat has been authorized to meet the country's requirements pending the harvesting of this year's crop. A recrudescence of labour trouble has had a depressing effect upon business generally, and it is hoped that once the Statute of Cataluna and the Agrarian Reform Bill have passed the Cortes, a definite check will be given to syndicalist activities. Unemployment in the North is to receive immediate relief from a programme of road and railway construction.

Morocco

From the Bank of British West Africa Limited

Pending ratification by the new French Government of the " quota " arrangement reached between France and Morocco in February, some 120,000 quintals of soft wheat only may be imported into France from Morocco, duty free, during the month of June, and this unexpected limitation has affected business conditions adversely. Apart from this, the general outlook is more promising. Import trade has been reasonably active, although prices are tending downwards. Manchester cottons and Soya bean oil are in more demand. Motor-car imports are slightly lower, but transport continues to develop. Poland has just secured an order for 12 locomotives for the Moroccan railways. The export of vegetables and " early " products is developing on big lines. The census for 1931 in the *French* zone of Morocco returns the population as 5,058,000.

United States

Confidence was temporarily restored by the balancing of the budget, but the general business tone is still very uncertain, and has been affected by the Chilean revolution and the trend of events in Europe. Business generally shows no improvement.

Car-loadings for the four weeks ended 28th May were only 2,087,756 in number, which is not an encouraging figure. Copper prices have lately been as low as $5\frac{3}{8}$ cents per lb., notwithstanding the imposition of a duty of 4 cents per lb. on foreign copper which took effect soon after this price was quoted. The May production of pig-iron is believed to be the lowest since August, 1897, and the number of furnaces in blast declined from 60 to 53 during the month. Steel mills were working at barely 20 per cent. of capacity. Trading in cotton futures has been narrow with no decided tone. Recent field reports are on the whole favourable, and in most areas sufficient rain has fallen. Drastic curtailment of production is taking place in the cotton industry, and mills are only accepting immediate business at current prices.

Japan

Foreign trade showed some improvement in May over April, particularly in exports of textiles. The raw silk market was dull, and the fall in prices made it difficult to carry out the scheme for the disposal of stocks. Silk piece-goods prices hardened early in June as the result of the Government's decision to take over certain stocks. The Minister of Finance has stated that the Government's policy is to promote easy monetary conditions. Y.50 millions have been advanced to finance farmers' purchases of fertilizers and to assist the silk cocoon industry, and the limit of the fiduciary note issue may be extended to Y.1,000,000,000. If it should prove necessary for the purpose of assisting home industries, existing Customs duties will be increased by Imperial Ordinance.

Banking

1. BANK OF ENGLAND

Date.	Issue Department.		Banking Department.				
	Gold.	Notes in circulation.	Reserve and Proportion.		Bankers' Deposits.	Govt. Securities.	Discounts & Advances
1931.	£ mn.	£ mn.	£ mn.	Per cent.	£ mn.	£ mn.	£ mn.
June 24 ...	*162·9*	*352·8*	*71·2*	*59·1*	*61·6*	*30·4*	*9·6*
1932.							
June 1 ...	128·6	355·4	48·9	34·2	90·0	73·9	12·5
June 8 ...	131·7	357·2	50·2	24·6	85·8	74·3	12·6
June 15 ...	134·5	357·4	52·8	37·1	87·5	68·8	12·7
June 22 ...	135·7	358·5	52·9	37·1	73·6	66·6	14·1

2. TEN CLEARING BANKS

Date.	Deposits.	Acceptances.	Cash.*	Call Money.	Bills.	Investments.	Advances.
1931.	£ mn.	£ mn.	£ mn.	£ mn.	£ mn.	£ mn.	£ mn.
May	*1,737·8*	*114·2*	*223·0*	*131·5*	*224·0*	*290·0*	*934·6*
December	1,737·0	102·1	235·6	119·4	246·4	296·5	899·8
1932.							
January	1,714·0	98·7	223·5	117·3	239·3	283·4	904·9
February	1,658·5	90·6	214·0	109·8	207·5	279·6	902·3
March	1,676·4	98·7	217·4	112·5	216·8	281·9	902·1
April	1,680·5	98·1	214·2	112·4	240·1	287·5	881·0
May	1,699·0	99·5	222·0	113·1	246·5	300·2	871·4

* Includes balances with other banks and cheques in course of collection.

3. LLOYDS BANK, RATIO OF CURRENT ACCOUNT CREDIT BALANCES TO TOTAL DEPOSITS

Year.	Ratio.	Month.	Ratio.			
			1929.	1930.	1931.	1932.
			%	%	%	%
1902	58·2	January	46·8	45·1	45·9	46·5
1914	49·9	February	45·9	44·2	45·1	44·7
1919	60·7	March	45·2	44·5	45·3	44·7
1920	56·7	April	44·9	45·1	45·0	45·2
1921	50·7	May	44·1	44·0	44·8	45·3
1925	49·6	June	44·5	44·4	45·4	
1926	48·6	July	45·4	44·7	45·7	
1927	47·4	August	45·3	44·4	45·7	
1928	46·4	September	45·3	44·7	45·0	
1929	45·2	October	45·6	44·8	45·3	
1930	44·7	November	44·7	44·8	45·3	
1931	45·4	December	45·3	46·0	46·7	

Money, Exchanges and Public Finance

1. LONDON AND NEW YORK MONEY RATES

Date.	London. Bank Rate.	London. 3 Months' discount Rate.	London. Day-to-day Loans.	New York. Re-discount Rate.	New York. 90 Days' eligible Bank acceptances.	New York. Call. Money.
	Per cent.	Per cent.	Per cent.	Per cent.	Per cent.	Per cent.
1931.						
June 24 ...	*$2\frac{1}{2}$*	*$2\frac{1}{32}$— $\frac{1}{16}$*	*$1\frac{1}{2}$—2*	*$1\frac{1}{2}$*	*1*	*$1\frac{1}{2}$*
1932.						
June 1 ...	$2\frac{1}{2}$	1 —$1\frac{1}{16}$	$\frac{3}{4}$—$1\frac{1}{4}$	3	1	$2\frac{1}{2}$
June 8 ...	$2\frac{1}{2}$	1 —$1\frac{1}{8}$	$\frac{3}{4}$—$1\frac{1}{2}$	3	1	$2\frac{1}{2}$
June 15 ...	$2\frac{1}{2}$	1 —$1\frac{1}{8}$	$\frac{1}{2}$—$1\frac{1}{2}$	3	1	$2\frac{1}{2}$
June 22 ...	$2\frac{1}{2}$	1 —$1\frac{1}{16}$	$\frac{3}{4}$—$1\frac{1}{4}$	3	1	$2\frac{1}{2}$

2. FOREIGN EXCHANGES

London on	Par.	1931. June 24.	1932. June 1.	1932. June 8.	1932. June 15.	1932. June 22.
New York ...	$4·866	4·86$\frac{19}{32}$	3·68$\frac{1}{8}$	3·67$\frac{3}{4}$	3·66$\frac{5}{8}$	3·62$\frac{3}{8}$
Montreal ...	$4·866	4·88$\frac{3}{4}$	4·19	4·28$\frac{1}{8}$	4·24	4·17
Paris ...	Fr. 124·21	124·27	93$\frac{5}{16}$	93$\frac{5}{16}$	93$\frac{5}{16}$	92$\frac{1}{8}$
Berlin ...	Mk. 20·43	20·49$\frac{1}{2}$	15$\frac{19}{32}$	15·50	15·50	15·24$\frac{1}{2}$
Amsterdam ...	Fl. 12·11	12·08$\frac{7}{8}$	9·09	9·07	9·06$\frac{1}{2}$	8·95$\frac{1}{2}$
Brussels ...	Bel. 35	34·93	26·35	26·32$\frac{1}{2}$	26·30	26$\frac{1}{32}$
Milan ...	Li. 92·46	92·95	71$\frac{3}{4}$	71$\frac{5}{8}$	71$\frac{5}{8}$	71$\frac{9}{16}$
Berne ...	Fr. 25·22$\frac{1}{8}$	25·08$\frac{7}{8}$	18$\frac{13}{16}$	18·77$\frac{1}{2}$	18·80	18·60$\frac{1}{2}$
Stockholm ...	Kr. 18·16	18·14$\frac{1}{4}$	19$\frac{7}{16}$	19·50	19·55	19·50
Madrid ...	Ptas. 25·22$\frac{1}{8}$	51·75	44$\frac{11}{16}$	44$\frac{1}{2}$	44$\frac{7}{16}$	43$\frac{15}{16}$
Vienna ...	Sch. 34·58$\frac{1}{8}$	34·63	36$\frac{1}{2}$*	35$\frac{1}{2}$*	35$\frac{1}{2}$*	32$\frac{1}{2}$*
Prague ...	Kr. 164·25	164$\frac{1}{4}$	124	123$\frac{3}{4}$	123$\frac{3}{4}$	122$\frac{1}{8}$
Buenos Aires ...	47·62d.	35$\frac{5}{8}$	34$\frac{3}{8}$†	38$\frac{1}{4}$†	34$\frac{1}{4}$†	34$\frac{1}{4}$†
Rio de Janeiro	5·89d.	3$\frac{23}{32}$	4$\frac{3}{8}$†	5†	5†	5$\frac{1}{16}$†
Valparaiso ...	Pes. 40	39·97	60·50*	60·50*	60·50*	60·50*
Bombay ...	18d.	17$\frac{3}{4}$	17$\frac{29}{32}$	17$\frac{15}{16}$	17$\frac{15}{16}$	17$\frac{15}{16}$
Hong Kong ...	—d.	12$\frac{1}{4}$	15$\frac{1}{4}$	15$\frac{5}{8}$	15$\frac{3}{8}$	15$\frac{1}{4}$
Shanghai ...	—d.	15$\frac{5}{8}$	20	20$\frac{1}{4}$	20	20$\frac{1}{4}$

* Nominal. † Rate in London.

3. PUBLIC REVENUE AND EXPENDITURE

Revenue.	To June 18, 1932.	To June 20, 1931.	Expenditure.	To June 18, 1932.	To June 20, 1931.
	£ mn.	£ mn.		£ mn.	£ mn.
Income Tax ...	17·2	18·8	Nat. Debt Service	98·4	106·9
Surtax	6·2	10·3	Northern Ireland Payments ...	0·9	1·0
Estate Duties ...	16·0	17·0	Other Cons. Fund Services ...	0·5	0·4
Stamps	1·2	2·0	Supply Services	86·8	84·7
Customs	33·8	25·5	Ordinary Expenditure ...	186·7	192·9
Excise	28·1	26·4	Sinking Fund	6·0	8·1
Tax Revenue ...	103·3	100·9	Self-Balancing Expenditure ...	13·5	15·0
Non-Tax Revenue	7·3	19·3			
Ordinary Revenue	110·6	120·2			
Self-Balancing Revenue	13·5	15·0			

Trade

1. PRODUCTION

Date.	Coal.*	Pig-Iron.	Steel.
1931.	Tons mn.	Tons thou.	Tons thou.
May	*4·2*	*347*	*435*
December	4·5	331	422
1932.			
January	4·4	330	430
February	4·5	318	481
March	4·5	336	463
April	4·1	317	433
May	4·0	315	417

* Average weekly figures for month.

2. IMPORTS

Date.	Food.	Raw Materials.	Manufactured Goods.	Total.
1931.	£ mn.	£ mn.	£ mn.	£ mn.
May	*33·3*	*14·6*	*21·0*	*69·6*
December	39·7	18·5	18·2	77·0
1932.				
January	31·5	16·9	13·3	62·3
February	33·6	15·4	20·1	70·2
March	30·9	16·5	13·0	61·1
April	27·5	13·4	11·8	53·5
May	29·9	13·7	11·6	53·7

3. EXPORTS

Date.	Food.	Raw Materials.	Manufactured Goods.	Total.
1931.	£ mn.	£ mn.	£ mn.	£ mn.
May	*2·8*	*4·0*	*26·0*	*33·9*
December	3·0	4·0	22·7	32·1
1932.				
January	2·8	3·6	23·4	31·1
February	2·8	3·5	22·6	30·0
March	2·7	3·5	24·2	31·2
April	2·9	4·0	26·8	34·8
May	2·6	3·6	23·2	30·2

4. UNEMPLOYMENT

Date.	1926.	1927.	1928.	1929.	1930.	1931.	1932.
End of—	Per cent.	Per cent.	Per cent.	Per cent.	Per cent.	Per cent.	Per cent.
January	11·0	12·0	10·7	12·2	12·6	21·5	22·4
February	10·4	10·9	10·4	12·2	13·1	21·7	22·0
March	9·8	9·8	9·5	10·1	14·0	21·5	20·8
April	9·1	9·4	9·5	9·9	14·6	20·9	21·4
May	14·3	8·7	9·8	9·9	15·3	20·8	22·1
June	14·6	8·8	10·7	9·8	15·4	21·8	
July	14·4	9·2	11·6	9·9	16·7	22·6	
August	14·0	9·3	11·6	10·1	17·1	22·7	
September ...	13·7	9·3	11·4	10·0	17·6	23·2	
October	13·6	9·5	11·8	10·4	18·7	21·9	
November ...	13·5	9·9	12·1	11·0	19·1	21·4	
December ...	11·9	9·8	11·2	11·1	20·2	20·9	

Percentage of Insured Workers.

Prices

1. WHOLESALE PRICES (average for month)

Date.	Index Number (Sept. 16th, 1931 = 100).				
	U.K.	U.S.A.	France.	Italy.	Germany.
1931.					
May	*107·1*	*104·3*	*110·4*	*105·3*	*104·0*
December	109·6	97·2	93·5	97·2	95·3
1932.					
January	108·8	94·2	93·7	96·2	91·9
February	107·5	92·3	94·4	97·4	91·7
March...	106·8	91·5	96·4	97·0	91·7
April	103·5	90·2	96·7	95·5	90·4
May	101·2	88·4	95·5	93·5	89·3
June, 1st week	99·1	87·3	94·0	91·7	88·5
June, 2nd week	98·0	86·4	93·8	91·2	88·6
June, 3rd week	97·1	86·0	92·7	90·4	88·2
June, 4th week	97·6	86·3	—	89·9	88·4

Sources: U.K., "Financial Times"; U.S.A., Irving Fisher; France, Statistique Generale; Italy, Italian Chamber of Commerce; Germany, Statistische Reichsamt.

2. RETAIL PRICES (end of month)

Date.	Food.	Rent (including rates).	Clothing.	Fuel and Light.	Other items included.	All items included.
1931.						
May	*27*	*54*	*95*	*70*	*75*	*45*
December ...	31	54	90	75	75	47
1932.						
January	31	54	90	75	75	47
February ...	29	54	90	75	75	46
March	26	54	90	75	75	44
April	25	53–54	90	70–75	75	43
May	23	54	90	70–75	75	42

The figures represent the percentage increase above July, 1914, which is equal to 100.

3. COMMODITY PRICES (average for month)

Date.	Wheat, No. 1 N. Manitoba.	Cotton, American Middling.	Wool, 64's tops avge.	Pig-Iron, Cleveland No. 3.	Tin, Standard Cash.	Rubber, Plantation Sheet.
1931.	Per qr. s. d.	per lb. d.	per lb. d.	Per ton. s. d.	Per ton. £	per lb. d.
May	*28 2*	*5·16*	*23$\frac{3}{8}$*	*58 6*	*104$\frac{5}{8}$*	3
December ...	33 8	5·23	23$\frac{1}{4}$	58 6	139	3
1932.						
January	33 10	5·47	23$\frac{1}{2}$	58 6	140$\frac{1}{4}$	3
February ...	34 7	5·70	23	58 6	139$\frac{1}{4}$	2$\frac{3}{4}$
March	34 8	5·38	22	58 6	129$\frac{15}{16}$	2
April	32 7	4·92	21$\frac{3}{4}$	58 6	109$\frac{1}{16}$	1$\frac{7}{8}$
May	31 10	4·83	21	58 6	122$\frac{3}{8}$	1$\frac{13}{16}$